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C O N F I D E N T I A L SECTION 01 OF 03 JAKARTA 013173

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SUBJECT: SHOWDOWN BETWEEN PRESIDENT AND VP OVER REFORM UNIT

REF: A. JAKARTA 7941 (WORRIES ABOUT SBY'S POSITION)

[1](#)B. 05 JAKARTA 16504 (DYNAMICS BEHIND RESHUFFLE)

[1](#)C. 05 JAKARTA 6383 (VICE PRESIDENT JUSUF KALLA)

[1](#)D. 04 JAKARTA 12661 (KALLA WINS CHAIR OF GOLKAR)

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Classified By: Ambassador B. Lynn Pascoe, reasons 1.4 (b) AND (d).

SUMMARY

[1](#)1. (C) President Yudhoyono and Vice President Kalla have skirmished publicly over SBY's decision to advance the President's reform agenda. Although referred to in general terms for months, the "Presidential Work Unit on Managing Policy and Reform Programs (UKP3KR)" was reportedly designed and unveiled without being discussed with the VP. Presidential spokesperson Andi Mallarangeng publicly introduced UKP3KR on October 26 and it promptly incurred the wrath of several Golkar party officials (Note: Vice President Kalla is the Chairman of Golkar (REF D), Indonesia's largest political party), as well as Kalla's surrogates in the Indonesian House of Representatives (DPR), who decried the measure as a means of sidelining the Vice President. Several of the President's cabinet ministers, with State Secretary Yusril Mahendra leading the charge, also actively opposed the new group.

[1](#)2. (C) On November 3 Kalla himself publicly called for the unit to be disbanded and then requested a meeting with the President to express his displeasure over the proposed body. In the wake of their meeting, the President appeared to back off a bit on his plans for UKP3KR, notably excluding the unit's head from a November 6 cabinet meeting. Kalla's supporters interpreted the unit head's absence as a clear victory for Kalla in what amounted to a very public dustup between the President and the Vice President. However, two contacts close to the President suggested SBY would proceed with his plans for the reform unit, an indication perhaps that Kalla's celebration might be premature. The creation of UKP3KR was the President's most recent attempt to augment his executive authority. The President needs more than ever to counter mounting criticism of the economy and the slow pace of reform, and a decision to cave to Kalla's pressure could be politically disastrous. End Summary.

THE PRESIDENTIAL WORK UNIT

[1](#)3. (SBU) On September 26, President Yudhoyono signed

Presidential Decree No 17/2006 authorizing the creation of UKP3KR. The move was welcomed by investors, economists, and advocates of reform. The intellectual brainchild American analyst Adam Schwarz, UKP3KR was given a three-year mandate to strengthen the President's reform agenda by focusing on five areas: improving the investment climate, implementing bureaucratic reform, improving the performance of state enterprises, expanding the role of small and medium enterprises, and improving law enforcement. The unit itself was a compromise, as ideas for broader civil service reform efforts and a national security council were eventually judged by the President and his team as too difficult and politically risky. The decree had been delayed for several months. The President tapped three well known reformers for the unit: former Cabinet Secretary and Attorney General Marsilam Simanjuntak as chair the and retired Lieutenant General Agus Widodo and Chairman of the Board of Bank Mandiri and former head of the Indonesian Bank Restructuring Agency (IBRA) Edwin Gerungan were as deputies.

14. (SBU) UKP3KR was modeled after Tony Blair's Delivery Unit, a group the British Prime Minister created in 2001 to help him deliver on key public policy promises. Marsilam Simanjuntak, who is also advising the Ministry of Finance on tax reform, announced UKP3KR would function similarly, working in close coordination with the cabinet ministers to assess the pace of reform and focus the President's attention accordingly. SBY has been handicapped in pushing through reforms by the absence of a dedicated policy implementation, coordination and monitoring body: the State Secretariat (SekNeg) plays an administrative, and unhelpful gate keeping role. Both Marsilam and the President's spokesperson, Andi Mallarangeng, emphasized the unit would complement the work of the cabinet ministers and not supplant them.

15. (C) A World Bank official familiar with the history of the
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UKP3KR's evolution told us the President handled its rollout poorly and never really sold key cabinet ministers on its utility. Yusril Mahendra, in particular, only gave the President his support under duress, and reportedly worked behind the scenes (as he has on other reform initiatives) to ensure its failure. According to the World Bank official, other ministers feared the unit could ultimately succeed in its mission, thereby jeopardizing their ability to profit from their positions and dispense patronage. The ministers also resented the fact that an outsider developed the idea for UKP3KR and that it was modeled after a British initiative.

KALLA AND GOLKAR REACT

16. (C) According to Mahendra Siregar, an Economic Affairs Ministry Deputy, and other post contacts, Golkar and SekNeg officials tried to sideline UKP3KR from the beginning. Vice President Kalla and Golkar reacted swiftly and aggressively to the public unveiling of the body and interpreted the unit's creation as a challenge to Kalla and Golkar's policy-making influence, as well as a public slap at the cabinet, to which Golkar is the largest partner (REF B). Kalla pulled out all the stops to undermine the new unit, enlisting the support of Indonesia's two largest mass Islamic organizations.

17. (C) Golkar's public condemnations of the unit focused on two lines of attack: a) UKP3KR was redundant and cabinet level positions already existed to carry out the unit's mandate and b) the President violated the spirit of the SBY-Kalla pre-election compact (REF C). A key unstated reason for Golkar's unhappiness was that Marsillam Simandjuntak, as the Attorney General in 2001, recommended that Gus Dur disband Golkar, and party officials throughout Golkar clearly relished the opportunity to mete out revenge through opposition to UKP3KR.

¶18. (C) Vice President Kalla publicly joined the anti-working group chorus on November 3 and then privately met the President to air his grievances. According to Poempida Hidayatulloh, the Golkar Deputy Treasurer, the Vice President appealed to the President's sense of honor by observing the President's failure to consult him on UKP3KR constituted a breach of their pre-election gentlemen's agreement to consult each other on important policy decisions. According to Poempida, he then threatened that he would have difficulty as Golkar chair enlisting Golkar's continued support for government policies if the President insisted on appointing an avowed enemy of Golkar like Marsillam to a key policy-making position.

¶19. (C) According to Poempida, the President took Kalla's points and expressed his surprise at the controversy surrounding the working group. Poempida said the President then apologized for the unintentional affront and vowed to sideline the group quietly. Kalla reportedly in exchange agreed the group should not be disbanded or undermined publicly, as such a move would damage the President's credibility. Poempida told us the Vice President was confident he had persuaded the President to stand down on the working group and then viewed Marsillam's exclusion from the subsequent November 6 cabinet meeting as confirmation the President would abide by his word.

WHAT NOW?

¶10. (U) On November 6, following the cabinet meeting, the President's spokesperson addressed questions about Marsillam's absence from the cabinet meeting by claiming UPK3R would "remain in existence" but that the President would redesign its parameters to meet certain "working standards" and clarify "technical functions." The comments were widely publicized in the Indonesian media and generally treated as evidence the President had acquiesced to Kalla's concerns over the body.

¶11. (C) A confidante of the President's told the Ambassador that SBY was angry with Golkar for returning to its "devious, untrustworthy" political ways. The President was particularly incensed the Vice President decided to object to UKP3KR publicly. According to the contact, the President was also frustrated by Golkar's arrogance and evident disregard

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for the fact that SBY had been elected President by an overwhelming margin without Golkar's support.

¶12. (C) Two Presidential contacts told us SBY planned to proceed with his plans for UKP3KR at his own pace. They both claimed SBY would not reverse his decree and would not be cowed by Golkar's veiled threats to pull out of the government. SBY expressed frustration with the need to deal with Golkar, but was nevertheless fully aware the party's options were limited and that he had the upper hand as President.

COMMENT

¶13. (C) This public sparring has damaged the President's public standing. The battle underscored the fragile nature of the SBY/Kalla/Golkar union. Perhaps more disturbingly, the President's inability to outmaneuver Golkar and possible capitulation to the party's demands to emasculate UKP3KR highlight the obstacles SBY faces in his effort to carry out meaningful reform. Golkar is above all else the party of entrenched interests and the President's deal with the party has always been somewhat cynical in nature. On one hand the alliance has been helpful for the President in crafting a majority in the DPR, while on the other, Golkar has demonstrated its ability to block reform and protect its

interests. Indonesia's largest political party is simultaneously the President's most useful ally and determined foe.

¶14. (C) Everyone is watching the President to see how he will respond to an obvious campaign of intimidation and bullying on the part of Kalla, Golkar and a political class long accustomed to feeding at the public trough. The showdown over the UKP3KR is seen as a test of the President's mettle and capacity to deliver on his reform promises.
PASCOE